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UTILITIES COMMISSION

BARTON L. KLINE
Lead Counsel

March 6, 2009

VIA HAND DELIVERY

Jean D. Jewell, Secretary
Idaho Public Utilities Commission
472 West Washington Street
P.O. Box 83720
Boise, Idaho 83720-0074

Re: Case No. IPC-E-09-03
*IN THE MATTER OF IDAHO POWER COMPANY'S APPLICATION FOR A
CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY FOR THE
LANGLEY GULCH POWER PLANT.*

Dear Ms. Jewell:

Enclosed for filing are an original and seven (7) copies of Idaho Power's Application in the above matter.

In addition, enclosed are an original and eight (8) copies each of the testimonies of Karl Bokenkamp, Vernon Porter, Lori Smith, and John R. Gale that are being submitted in support of Idaho Power's enclosed filing. One copy of each of the testimonies has been designated as the "Reporter's Copy." In addition, a disk containing Word versions of each of the above testimonies has been provided for the Reporter and has been marked accordingly.

Finally, I would appreciate it if you would return a stamped copy of this letter for Idaho Power's file in the enclosed stamped, self-addressed envelope.

Very truly yours,

Barton L. Kline

BLK:csb
Enclosures

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Attorneys for Idaho Power Company

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Boise, Idaho 83702

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER)
COMPANY'S APPLICATION FOR A) CASE NO. IPC-E-09-03
CERTIFICATE OF PUBLIC)
CONVENIENCE AND NECESSITY FOR) APPLICATION
THE LANGLEY GULCH POWER PLANT.)
)
)
_____)

COMES NOW, Idaho Power Company ("Idaho Power" or "the Company") and, in accordance with Idaho Code §§ 61-526 through 528 and RP 112, hereby applies to the Idaho Public Utilities Commission ("Commission") for a Certificate of Public Convenience and Necessity authorizing construction of the Langley Gulch power plant ("Langley Gulch" or "Project") and inclusion of the Project in Idaho Power's rate base.

This Application is based on the following:

I. CORPORATE STATUS

1. Idaho Power is a corporation incorporated under the laws of the state of Idaho. Idaho Power is engaged in the business of generating, purchasing, transmitting, and distributing electric energy and providing retail electric service in the states of Idaho and Oregon. Idaho Power's principal offices are situated in Boise, Idaho, and its address is 1221 West Idaho Street, Boise, Idaho, 83702. Copies of Idaho Power's Articles of Incorporation and Certificates of Convenience and Necessity are on file with the Commission.

II. INTRODUCTION

2. Idaho Power requests that the Commission issue a Certificate of Public Convenience and Necessity ("CPCN") authorizing Idaho Power to construct, own, operate, and maintain the Langley Gulch power plant. The Project is a natural gas-fired combined cycle combustion turbine ("CCCT") generating plant with a nameplate capacity of approximately 330 MWs. The Company proposes to construct the Project on a parcel of land on the south side of Interstate 84 in Payette County approximately 4 miles south of the town of New Plymouth, Idaho.

3. The Project is a baseload generating resource of the size and type identified as the preferred resource in the Company's June 2008 Update to its acknowledged 2006 Integrated Resource Plan ("IRP").

4. The Project was selected as the result of a competitive process ("Request for Proposals" or "RFP") in which the Company solicited proposals from independent power supply developers. The proposals were compared to each other and to a benchmark utility-owned and operated CCCT ("Benchmark Resource"). The Project is

the Benchmark Resource. The RFP process assessed the price and non-price attributes of the responses to the RFP. The RFP process identified the Project as the preferred resource. The RFP process selected the Project principally because the 20-year revenue requirement for the Project was significantly less than the other proposals under consideration.

III. THE PROJECT IS CONSISTENT WITH THE COMPANY INTEGRATED RESOURCE PLAN

5. In its Commission-acknowledged 2004 IRP, the Company identified a need for a 500 MW baseload pulverized coal-fired resource in 2011.

6. In its acknowledged 2006 IRP, the Company reassessed when it would need to add a coal-fired resource and adjusted its long-term resource plan to include a 250 MW pulverized coal-fired resource in 2013 and a 250 MW advanced coal-fired resource in 2017.

7. In June of 2008, Idaho Power filed an update to its acknowledged 2006 Integrated Resource Plan in which it notified the Commission that due to various uncertainties associated with the coal-fired generation, the Company had decided not to proceed with the previously planned coal-fired resources. The June 2008 Update also noted that the Company had decided to issue a RFP for tolling agreements ("TA") or power purchase agreements ("PPA") for 250 MW to 600 MW of dispatchable gas-fired capacity and energy deliverable in 2012 ("2012 baseload resource"). The RFP for the 2012 baseload resource was issued in April of 2008.

8. A more detailed description of how the Project satisfies the criteria laid out in the Company's 2008 Update to the 2006 IRP and why the Project promotes the public convenience and necessity is contained in the testimony of Mr. Karl Bokenkamp.

Mr. Bokenkamp is Idaho Power's General Manager, Power Supply Operations and Planning and his testimony is filed concurrently in support of this Application.

IV. RFP PROCESS

9. In accordance with the June 2008 Update to the 2006 IRP, in March of 2008, the Company assembled an interdisciplinary team to develop and process an RFP for a 2012 baseload resource ("RFP evaluation team"). The Company also retained a consultant, R. W. Beck, to assist the RFP evaluation team with development of the RFP and to provide an independent assessment of the Company's RFP process. The RFP evaluation team developed detailed criteria and a methodology for evaluating both price and non-price attributes of a proposed resource, including a TA or PPA. The evaluation criteria are contained in an evaluation manual which was completed prior to the receipt of responses to the RFP. On April 1, 2008, the RFP evaluation team issued a formal request for competitive proposals for up to 600 MWs of energy. This 600 MW amount was later adjusted to approximately 300 MWs. The RFP documents sent to bidders included a template PPA and TA to provide a uniform platform for evaluating submitted contracts.

10. In the RFP solicitation documents, the RFP evaluation team noted that it would compare all submitted proposals to a utility-owned CCCT. The utility-owned resource would provide a benchmark to ensure that the Company evaluated all potential available resources. The Company formed a separate team to develop the Benchmark Resource. The Benchmark Resource development team did not include any members of the RFP evaluation team. The RFP evaluation team treated the proposal presented by the Benchmark Resource development team in an identical manner as it treated all

other entities submitting proposals in the RFP process. The Benchmark Resource development team received no preferential communication or treatment and the Benchmark Resource proposal was evaluated utilizing using the same evaluation manual and techniques as applied to the other proposals. A copy of the Company's independent consultant's, R. W. Beck's, final assessment report, in which R. W. Beck states its conclusion that Idaho Power's RFP process was conducted fairly and properly, is Exhibit No. 4 to Mr. Bokenkamp's testimony.

11. The RFP evaluation process assessed both price and non-price attributes. Price attributes were weighted at 60 percent of the total valuation and non-price attributes were given a 40 percent weighting.

12. Based on a comparison of the price and non-price attributes of each of the proposals, the Company has concluded that the Project provides the greatest value for customers. On a net present value basis, over the 20-year term of a PPA or TA the Project is estimated to have a revenue requirement impact approximately \$108 million lower than the next least expensive proposal.

13. A more detailed description of the RFP evaluation process and the results of the RFP evaluation team's analysis of the proposals received are contained in the testimony of Mr. Karl Bokenkamp.

V. DESCRIPTION OF LANGLEY GULCH PROJECT

14. The Project is a 330 MW nameplate capacity gas-fired combined cycle combustion turbine generating plant. A detailed description of the Project and discussion of some of the reasons why the Project is the Company's preferred resource addition are contained in the testimony of Mr. Vernon Porter and Mr. Karl Bokenkamp.

Mr. Porter is Idaho Power's General Manager of Power Production and his testimony is filed concurrently in support of this Application.

VI. COMMITMENT ESTIMATE

15. As Mr. Porter noted in his testimony on pages 8 through 11, the Project development team has negotiated agreements for procurement of the major pieces of equipment that will make up the Project, including the gas and steam turbines which will be supplied by Siemens. The Project development team has also negotiated an agreement for engineering, procurement, and construction ("EPC") under which the equipment furnished by Siemens and others will be integrated into the total Project. The Project development team has also obtained estimates, based on a System Impact Study, of the cost of constructing the transmission that will be needed to integrate the Project into Idaho Power Company's system. Based principally on the above-described agreements and the transmission cost estimate, Idaho Power is able to make a reliable estimate of the total capital cost of the Project. As it has done in prior CPCN applications, Idaho Power has termed this estimate a "Commitment Estimate." The Commitment Estimate is a good faith estimate of the Project's total capital cost, including certain additional costs the Company anticipates it will incur but cannot quantify with precision at this time. Idaho Power's Commitment Estimate for the Project is \$427,400,000.

16. Idaho Power will commit to procure and construct the Project for an amount that will not exceed the Commitment Estimate. Amounts incurred in excess of the Commitment Estimate would be subject to a "soft cap," that is excess costs could

only be included in rates if the Commission agreed the additional amounts expended were prudent and should be included in fair, just, and reasonable rates.

17. Idaho Power will provide the Commission with periodic percentage of completion and cost expenditure reports during the construction phase of the Project. The final report on the Project will compare the actual completed cost to the Commitment Estimate.

18. A more detailed description of how the Commitment Estimate would operate to reduce uncertainty in resource acquisition cost is set out in the testimony of Mr. Ric Gale. Mr. Gale is Idaho Power's Vice President of Regulatory Affairs and his testimony is filed concurrently in support of this Application.

VII. FUEL-RELATED EXPENSES

19. A major component of the operating cost of a combined cycle combustion turbine generating plant is the cost of natural gas fuel. Idaho Power currently owns or will acquire firm fuel transportation rights that can be utilized by the Project. The Company anticipates that management of the fuel supply will be undertaken by Idaho Power personnel.

20. As a part of this Application, Idaho Power is requesting that the Commission's Order issuing the CPCN authorize Idaho Power to include the Project's prudently incurred costs for fuel, fuel storage, and fuel transportation for recovery through the Company's existing Power Cost Adjustment ("PCA") mechanism.

VIII. RATEMAKING TREATMENT

21. As noted in Section IV and the testimony of Mr. Bokenkamp, if the Commission grants the Company a CPCN to proceed with the Project, the Company

will be able to realize substantial savings as compared to the revenue requirement it would incur under the least expensive tolling agreement submitted in the RFP process. However, to capture these substantial savings, it will be necessary for the Company to go to the capital markets to raise the approximately \$427 million needed to construct the Project. Traditional utility financing would require the Company to issue both new stock and new debt. The Company's stock is currently selling at a price that is below the book value of the Company. For these reasons, the Company is requesting that the Commission include in its order issuing the CPCN authority for the Company to utilize one of two alternative ratemaking mechanisms that would put the Company in the best position to finance this Project.

22. In summary, the Company is requesting that in its Order issuing the CPCN, the Commission authorize the Company to annually collect construction work in progress ("CWIP") in its rates for all or a portion of the construction expenditures the Company incurs as it moves forward with construction of the Project or, alternatively, commit to apply specific ratemaking treatment that the Company can rely upon when the Project is completed and providing service to customers. The second alternative, the ratemaking commitment, is identical to the mechanism envisioned in the rate certainty legislation that is currently being discussed in the Idaho Legislature in Senate Bill 1123. Idaho Power believes that a Commission order providing either CWIP or commitments for future ratemaking treatment would substantially enhance the Company's ability to obtain financing for the Project. If financing is available, the allowance of CWIP or the authorization of ratemaking commitments would also increase the likelihood that the Company will be able to obtain financing rates that are more

favorable than would otherwise be available. More favorable rates would directly benefit the Company's customers by reducing the overall cost of the Project.

23. A detailed discussion of the Company's proposals for CWIP or the ratemaking commitments the Company is seeking in this Application, as well as the evidence demonstrating the need for these ratemaking provisions, are more specifically described in the testimony of Mr. Ric Gale and Ms. Lori Smith. Ms. Smith is Idaho Power's Vice President of Corporate Planning and Risk Management. Her testimony is filed concurrently in support of this Application.

IX. MODIFIED PROCEDURE

24. As previously noted, in order for the Company to move forward with development of the Project as a utility-owned resource, it will be necessary for the Company to receive a CPCN from the Commission which includes the ratemaking assurances and provisions described above and in the testimony of Mr. Gale. Until the Commission issues such an Order, the Company cannot prudently proceed with the Project. In today's uncertain financial environment, the Company believes that this level of regulatory assurance is required.

25. As a result, the commercial operation date of the Project is directly related to the issuance of a CPCN, including the necessary cost-recovery and ratemaking commitments.

26. As Mr. Bokenkamp notes in his testimony, having this Project available to meet future loads is extremely important. Therefore, to the extent the Commission can expedite its review of this Application, it will redound to the benefit of customers and system reliability. In order to streamline the process and expedite the Commission's

review of this Application, the direct testimonies of Mr. Karl Bokenkamp, Mr. Vernon Porter, Mr. Ric Gale, and Ms. Lori Smith have been filed concurrently with the filing of this Application. In addition, Idaho Power has already assembled many of the documents it anticipates, based on prior CPCN applications, that Staff and Intervenors will likely desire to examine as part of their analysis of this Application. As a result, it will not be necessary for Staff to send a formal request for production of the documents prior to reviewing these materials. If additional questions arise and additional documentation is needed, the Company will work with the Staff and Intervenors on an informal basis to expedite the review process.

27. The Company will make available workpapers and other documentation showing how the Commitment Estimate amount was determined. That documentation, as well as some of the other documents the Company intends to provide for review, contains information that the Company and bidders deem to be trade secrets. To assure full bidder participation in future Idaho Power RFPs, the Company will request that Staff and any Intervenors sign a standard Protective Agreement prior to reviewing these materials. Hopefully, making these documents immediately available for review will expedite the processing of this Application.

28. Finally, Idaho Power requests this Application be processed under RP 201, *et seq.*, allowing for consideration of issues to be processed under modified procedure, that is, by written submissions rather than evidentiary hearing.

29. While the Company believes that a technical hearing is not necessary, and this case can be processed utilizing modified procedure, if the Commission believes

that a hearing is necessary, the Company is prepared to move expeditiously in support of this Application.

WHEREFORE, Idaho Power respectfully requests that the Commission issue its Order:

(1) Granting Idaho Power a Certificate of Convenience and Necessity for the Project with a soft cap of \$427,400,000 allowed for the Company's investment in the Project; and

(2) Authorizing the Company to include construction work in progress in its rate base to allow the Company to annually include all, or a portion, of its prudent construction expenditures in its rate base in appropriate ratemaking proceedings; or, alternatively,

(3) Including provisions committing the Commission to apply specific ratemaking parameters when the Project is completed. These provisions would include language specifying that the Commission:

(a) Concurred with the need for the baseload resource in the size and time frame stated in the Application;

(b) Accepted the Commitment Estimate for the cost of the Project;

(c) Committed that the costs incurred in an amount up to the Commitment Estimate would be deemed to be reasonable and prudent subject to the "soft cap";

(d) Committed that at the time the Project achieved commercial operation and was closed to plant, cost recovery could begin; and

(e) Committed that the return on equity the Company could expect to earn on the Project investment would be the authorized return on equity in effect at the time the Project is placed in service.

(4) Including language specifying that Idaho Power can expect to recover its prudently expended fuel costs in the Company's Power Cost Adjustment mechanism.

Respectfully submitted this 6th day of March 2009.



BARTON L. KLINE
Attorney for Idaho Power Company